



LG&E Energy Corp.
220 West Main Street (40202)
P.O. Box 32030
Louisville, Kentucky 40232

September 17, 2003

Mr. Thomas Dorman, Executive Director
Public Service Commission
211 Sower Boulevard
P. O. Box 615
Frankfort, Kentucky 40602

RECEIVED

SEP 17 2003

PUBLIC SERVICE
COMMISSION

**RE: *AN INVESTIGATION PURSUANT TO KRS 278.260 OF THE EARNINGS
SHARING MECHANISM TARIFF OF KENTUCKY UTILITIES COMPANY
CASE NO. 2003-00334***

and

***AN INVESTIGATION PURSUANT TO KRS 278.260 OF THE EARNINGS
SHARING MECHANISM TARIFF OF LOUISVILLE GAS AND ELECTRIC
COMPANY
CASE NO. 2003-00335***

Dear Mr. Dorman:

Please find enclosed Kentucky Utilities Company's and Louisville Gas and Electric Company's initial set of data requests for information to Barrington-Wellesley Group, Inc.

Please contact me if you have any questions concerning this filing.

Sincerely,

John Wolfram
Manager, Regulatory Policy / Strategy

Enclosures

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

RECEIVED

SEP 17 2003

In the Matter of:

PUBLIC SERVICE
COMMISSION

AN INVESTIGATION PURSUANT TO KRS)	
278.260 OF THE EARNINGS SHARING)	CASE NO.
MECHANISM TARIFF OF KENTUCKY)	2003-00334
UTILITIES COMPANY)	

AND

AN INVESTIGATION PURSUANT TO KRS)	
278.260 OF THE EARNINGS SHARING)	CASE NO.
MECHANISM TARIFF OF LOUISVILLE GAS)	2003-00335
AND ELECTRIC COMPANY)	

**LOUISVILLE GAS AND ELECTRIC COMPANY'S
AND KENTUCKY UTILITIES COMPANY'S
INITIAL DATA REQUESTS FOR INFORMATION
TO BARRINGTON-WELLESLEY GROUP, INC.**

Louisville Gas and Electric Company ("LG&E") and Kentucky Utilities Company ("KU") submit their initial set of data requests for information to Barrington-Wellesley Group, Inc. ("BWG"). As used herein, "Documents" include all correspondence, memoranda, notes, maps, drawings, surveys or other written recorded materials, whether external or internal, of every kind or description, in the possession of or accessible to BWG, its witnesses or its counsel. Please identify by name, title, position and responsibility the person or persons answering each of these requests for information for BWG for each response.

1. Regarding Exhibit I-3 appearing on page I-8 of the report showing the results of a survey of performance based regulation in the U.S. electric industry appearing in an article published in The Electricity Journal in October 2001:

- a. Provide a copy of the article.
- b. Did BWG review any of the alternative regulation plans shown in Exhibit I-3?
- c. If the answer to (b) is “yes”, describe the scope and nature of the independent review of any of the alternative regulation plans listed in Exhibit I-3.
- d. If the answer to (b) is “yes”, provide a copy of reports, memoranda, workpapers, notes, or other information prepared by BWG in connection with its review of any of the alternative regulation plans shown in Exhibit I-3.
- e. If the answer to (b) is “yes”, provide a copy of all orders, regulatory submittals or other information reviewed by BWG concerning any of the alternative regulation plans listed in Exhibit I-3.
- f. Did BWG contact any of the utilities or state regulatory agencies regulating the utilities listed in Exhibit I-3 regarding the performance-based regulation plans? If so, provide a brief description of the conversation(s) and any notes prepared in connection with such conversation(s).
- g. Did BWG conduct any surveys of performance based regulation in the U.S. electric industry similar to the survey appearing in an article published in The Electricity Journal in October 2001? If so, please provide a complete copy of the survey.

- h. Did BWG review any other surveys of performance based regulation in the U.S. electric industry similar to the survey appearing in an article published in The Electricity Journal in October 2001? If so, please provide a complete copy of the survey.

2. Provide a copy of all evidence supporting the statement on Page I-10 of report that, "Traditional regulation gives the utility a short-term incentive to promote growth and maximize the utilization of existing plant (rate base), but when higher cost plant is built as a result of that growth, rates must rise in order to cover the increase in average cost."

3. Provide a copy of evidence supporting the statement on Page I-10 of report that "COSR certainly provides much better cost control incentives when the regulated utility files rate cases infrequently, and a long-cycle filing schedule is also usually in the utility's best economic interest."

4. Provide a copy of all reports, testimony and exhibits prepared by BWG in connection with the following engagements:

- a. The management audit of Southern Connecticut Gas Company's (SCG's) affiliate relations prepared for the Connecticut DPUC.
- b. The management audit or review of US West's Affiliate Transactions -- Oregon, Washington, Idaho and Minnesota Commissions (1995)

5. Provide copies of any pre-filed testimony and exhibits submitted by Mr. Michael A. Laros in the following proceedings:

- a. The management audit of the project management practices employed by Public Service Electric & Gas Company during the start-up phase of the Hope Creek nuclear project.

- b. The reviews of the fuels management practices and procedures of Toledo Edison Co. and Cleveland Electric Illuminating Co. for the Public Utility Commission of Ohio.

6. Provide copies of any pre-filed testimony and exhibits submitted by Mr. David P.

Vondle in the following proceedings:

- a. Alaska PUC -- Contel rate case (affiliated interests)
- b. U.S. District Court -- AT&T anti-trust trial (affiliated interests)
- c. New Mexico PSC -- Public Service of New Mexico's acquisition of the Gas Company of New Mexico (affiliated interests)
- d. United Cities in Tennessee and Kansas rate cases (affiliated interests)
- e. The Missouri PSC in a Utilicorp United rate case (affiliated interests).

7. Provide a complete list of all cases in which the following BWG consultants have testified before a utility regulatory agency (including name of jurisdiction or regulatory agency, docket number, date when testimony was filed, and subject matter(s)):

- a. Michael A. Laros
- b. Joel F. Jeanson
- c. Charles R. Parmelee
- d. David P. Vondle

8. Provide a copy of all reports, testimony and exhibits prepared by Mr. Michael A. Laros, Mr. Joel F. Jeanson, Mr. Charles R. Parmelee, or Mr. David P. Vondle in connection with all audits of either affiliate transactions or alternative regulation plans of utilities.

9. Provide a list of all utilities with executive compensation plans that are directly linked to an ESM or other forms of alternative ratemaking / regulation.

10. Provide all empirical evidence that demonstrates that linking a utility's executive compensation plan directly to an ESM will provide benefits to utility customers.

11. Provide all empirical evidence that demonstrates that linking a utility's executive compensation plan directly to an ESM is more advantageous than indirectly linking compensation to a utility holding company's internal operating profit.

12. Describe the BWG auditors' understanding of whether the costs related to LG&E and KU's executive compensation plans are currently recovered through LG&E's or KU's rates.

13. If LG&E and KU's executive short-term incentive program is directly linked to the ESM, is it BWG's position that customers should pay for such incentive payments through rates? Please provide a detailed explanation in support of the answer.

14. Please provide a list of all regulatory jurisdictions that allow a multi-year ESM mechanism, as described on page V-8 of the audit report.

15. Please explain whether LG&E's and KU's executive short-term incentive program should be directly linked to the multi-year ESM proposed on page V-8. If so, please provide a detailed explanation of how a short-term executive compensation plan could be structured to account for a multi-year ESM. Please explain the inconsistency between creating a multi-year ESM and the linkage of short-term (as opposed to long-term) incentive compensation to that ESM.

16. Please provide a detailed explanation of whether or not a multi-year ESM would constitute retroactive ratemaking.

17. Please provide a detailed explanation of whether a multi-year ESM would be consistent with the "matching principle".

18. On page V-8, the audit report states that, “There are a number of ways that a multi-year ESM could be structured; we will outline one example herein.”

- a. Describe the proposed example in more detail using values and summarizing the calculations to be performed for each year of the mechanism.
- b. Explain how the example provided in (a) would not constitute double and triple recovery in years two and three, respectively, should the results in all three years lie outside the deadband.
- c. Does BWG propose to use average-monthly capitalization in the calculations? If not, what period-ending capitalization will be used in each year?
- d. Provide a detailed explanation of why using a multi-year ESM would not dilute the incentive to improve earnings in years one and two.
- e. Describe examples in similar detail of other “ways that a multi-year ESM could be structured”.

19. On page I-20 and page V-7, the audit report states that, “For example, in a rate proceeding, pro form adjustments are typically made to adjust test year sales to reflect normal weather.”

- a. Provide a copy of all research or other information supporting this statement.
- b. Provide a list of all regulatory jurisdictions that allow a pro-forma adjustment to reflect normal weather.

- c. Is it BWG's recommendation that a pro-forma adjustment be made to revenues and expenses to reflect normal weather in the application of the ESM?

20. On page I-20 and page V-7, the audit report states that, "By allowing only a limited number of adjustments, the annual ESM filing may reflect earnings at a level that is greater or less than levels that would be reported if the filing period were a general rate case test year subject to a full array of pro forma adjustments." Is it BWG's recommendation that a number of adjustments, such as those included in a general rate case, be included in annual ESM filings? Please explain.

21. If a number of adjustments are included in annual ESM filings, would annual ESM proceedings allow the same level of scrutiny of those adjustments as is customarily permitted in general rate case proceedings? Please explain.

22. Would the inclusion of a number of adjustments in annual ESM filings cause the annual ESM proceedings to be similar in scope to general rate case proceedings? Please explain.

23. Provide a complete list of orders by regulatory agencies in other jurisdictions that have included provisions for affiliate transactions and executive compensation as a component of an alternative regulation plan.

24. Please provide a copy of all audit reports from 1998-2003 wherein BWG conducted an audit of affiliate relations – comparable to the ESM Audit's Task Area # 1 - *Review the Companies' compliance with all applicable Kentucky and Securities and Exchange Commission requirements for affiliate transactions.*

25. Please provide a copy of all audit reports from 1998-2003 wherein BWG has conducted an audit of management practices under incentive plan regulation – comparable to the

ESM Audit's Task Area # 2 - *Evaluate emerging management practices and policies and the level to which each Company has instituted policy changes in response to the incentive plan.*

26. Please provide a copy of the article "The Changing Dimensions of Utility Human Resources Management", *Public Utilities Fortnightly*, March 18, 1982.

27. Has any member of the BWG audit team provided professional services in the area of affiliate relations, whether as a retained consultant, as an auditor, or as an employee? If so, please provide:

- a. The name of the BWG audit team member and his capacity in that work;
- b. The name of the company or companies for which the consultation, the audit, or the work was done;
- c. The date(s) for the consultation, the audit, or the work;
- d. If a consultation and a report was produced, a copy of that report;
- e. If an audit and a report was produced, a copy of that report.

28. Has any member of the BWG audit team provided professional services in the area of alternative regulation plans, whether as a retained consultant, as an auditor, or as an employee? If so, please provide:

- a. The name of the BWG audit team member and his capacity in that work;
- b. The name of the company or companies for which the consultation, the audit, or the work was done;
- c. The date(s) for the consultation, the audit, or the work;
- d. If a consultation and a report was produced, a copy of that report;
- e. If an audit and a report was produced, a copy of that report.

29. Has any member of the BWG audit team provided professional services in the area of human resources management or incentive compensation plans, whether as a retained consultant, as an auditor, or as an employee? If so, please provide:

- a. The name of the BWG audit team member and his capacity in that work;
- b. The name of the company or companies for which the consultation, the audit, or the work was done;
- c. The date(s) for the consultation, the audit, or the work;
- d. If a consultation and a report was produced, a copy of that report;
- e. If an audit and a report was produced, a copy of that report.

30. Is any member of the BWG audit team aware of any ESMs in effect at U.S. utilities during 1998-2002? If so, please provide:

- a. The name of the BWG audit team member;
- b. The name of the company or companies operating with the ESMs;
- c. The regulatory jurisdiction(s) in which the company or companies operate with an ESM;
- d. A description of the applicable ESM including:
 - (1) Allowed return on equity,
 - (2) Deadband, if any,
 - (3) Sharing structure if any;
 - (4) Frequency of filings
 - (a) Monthly,
 - (b) Quarterly,
 - (c) Semi-Annually,

- (d) Annually,
 - (e) Bi-annually;
 - (f) Tri-Annually.
 - (5) Frequency of customer billings
 - (a) Monthly,
 - (b) Quarterly,
 - (c) Semi-Annually,
 - (d) Annually,
 - (e) Bi-annually;
 - (f) Tri-annually.
 - (6) Lag between filings with regulatory authority and billing to customers.
- d. The current status of the ESM including:
- (1) Whether it is discontinued and, if known, why,
 - (2) Whether it is extended with no changes and, if so, the time period of the extension; and
 - (3) Whether it is extended with modifications and, if so, the nature of those modifications.

37. Reference Page I-23 under Affiliate Transactions. Does BWG agree that this recommendation runs counter to the cost savings initiatives implemented by the Companies in recent years? Does BWG contend that the incremental costs to the reorganization necessary for implementing this recommendation should be paid by customers? Please explain.

38. Reference Page III-8, Item 4 - 1st bullet. Please state BWG's specific understanding of the reasons why internal audit hours decreased from 2000 to 2002 for non-regulated operations while "utility-focused" resources increased from 50.3% to 61.8% in 2002.

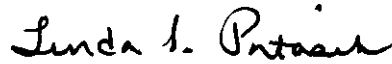
39. Reference Page IV-5, 3rd bullet, 2nd sentence: "...and some individual goals may coincidentally relate to the ESM." Please state BWG's basis for this statement.

40. Reference Page IV-5, 3rd bullet, 5th sentence: "...poor performance in expected because of market conditions or other factors, such as 2002, the goals could be set low and the incentive program would pay out for meeting the goals even if operating company allowed rates of return were not met." Please explain whether BWG believes that corporate objectives were deliberately set low for 2002, and whether such action is realistic given the acquisitions of LG&E Energy first by PowerGen and then by E.ON.

41. Reference Page IV-5, 3rd bullet, 6th sentence: "In 2002, incentive payments ...were 100% or more, even though the LG&E and KU rates of return fell below the dead band..." Does BWG agree that the 2002 incentive payments were atypical as a result of the E.ON merger? Does BWG agree that 2002 should not be considered as a normal example of how incentives are likely to be paid on a prospective basis? Please explain.

Dated: September 17, 2003

Respectfully submitted,



Linda S. Portasik
Senior Corporate Attorney
220 West Main Street
P.O. Box 32010
Louisville, Kentucky 40232
Telephone: (502) 627-2557

Kendrick R. Riggs
Allyson K. Sturgeon
OGDEN NEWELL & WELCH PLLC
1700 PNC Plaza
500 West Jefferson Street
Louisville, Kentucky 40202
Telephone: (502) 582-1601

COUNSEL FOR LOUISVILLE GAS AND
ELECTRIC COMPANY AND KENTUCKY
UTILITIES COMPANY

CERTIFICATE OF SERVICE

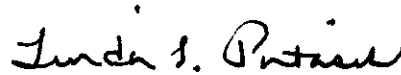
The undersigned hereby certifies that a true and correct copy of the foregoing Initial Requests for Information was served on the following parties of record this ___17th day of September 2003, by mailing a copy thereof, postage prepaid, through the U.S. Mail to:

Michael L. Kurtz
Boehm Kurtz & Lowry
36 East Seventh Street
Suite 2110
Cincinnati, Ohio 45202

Elizabeth E. Blackford
Assistant Attorney General
1024 Capital Center Drive, Suite 200
Frankfort, Kentucky 40601-8204

Michael A. Laros
Managing Director/Co-President
Barrington-Wellesley Group, Inc.
2479 Lanam Ridge Road
Nashville, Indiana 47448

John Rogness, Manager
Division of Financial Analysis
Management Audit Branch
Kentucky Public Service Commission
211 Sower Boulevard
Post Office Box 615
Frankfort, Kentucky 40602-0615



Counsel for Louisville Gas and Electric Company
and Kentucky Utilities Company